



Financial Terms

Balance Sheet – This statement provides an overall financial snapshot of your business. As an equation, it looks like ***liabilities + owner's equity = assets***. The two sides of the equation must balance out.

How a Balance Sheet is set up:

- Assets
 - Current Assets
 - Fixed Assets
 - Total Assets
- Liabilities & Equity
 - Liabilities
 - Current Liabilities
 - Long Term Liabilities
 - Total Liabilities
 - Owners Equity – accumulated net profit/loss since the beginning of the business
 - Total Liabilities & Equity

There are two types of assets: current and fixed.

- Current Assets include cash or other holdings that can quickly be converted to cash within one year. These may include:
 - Accounts Receivable - is what your customers owe you – it is money that is coming in the future.
 - Other Current Assets – assets that are not common and do not fall into the defined category of current assets
 - Fixed Assets - assets that are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment.
 - Depreciation - Depreciation is the systematic reduction of the recorded cost of a [fixed asset](#).
 - Other Assets - Long term assets that are not classified as investments, property, plant, equipment, or intangible assets. An example is bond issue costs that are amortized to expense over the life of the bonds
 - Inventory
 - Prepaid expenses - amounts paid in advance for future expenses - costs that have been paid but have not yet been used up or have not yet expired. Example – Insurance policy

- Fixed Assets – Assets that you are not going to sell – such as
 - Machinery
 - Equipment
 - Land
 - Buildings
 - Furniture
- Liabilities can be broken down into current or short-term liabilities & long term debt
 - Short Term Liabilities
 - Accounts Payable
 - Taxes
 - Long Term Liabilities - Obligations of the enterprise that are *not* payable within one year of the balance sheet date.
 - Bank Loans
 - Notes Payable
 - Owners Equity – reflects any invested capital or retained earnings.
- Equity
 - Owner's equity - represents the **owner's** investment in the business minus the **owner's** draws or withdrawals from the business plus the net income (or minus the net loss) since the business began. Mathematically, the amount of **owner's equity** is the amount of assets minus the amount of liabilities.
 - **Retained earnings** are the net **earnings** after dividends that are available reinvestment in the company's core business or to pay down its debt.
 - **Net income** links to both the **balance sheet** and cash flow statement. In terms of the **balance sheet**, **net income** flows into stockholder's equity via retained earnings. Retained earnings is equal to the previous period's retained earnings plus **net income** from this period less dividends from this period.

Profit & Loss – a profit & loss statement, also referred to as an income statement, enables you to project sales and expenses and typically covers a period of a few months to a year.

Lines on a P&L

- Income
 - Revenues: Sales – money coming into your business
 - Cost of Goods Sold (COGS) : the cost of your service, the cost of the items that you sell
 - Gross Profit \$: Sales – COGS = Gross Profit \$
- Expenses
 - Total Expenses

- Net Ordinary Income: $\text{Gross Profit } \$ - \text{Expenses} = \text{Net Income}$
- EBDITA: Earnings Before Depreciation, Interest, Taxes and Amortization.
 - Formula: $\text{EBIT} + \text{depreciation} + \text{amortization} =$

Cashflow Statement – This statement highlights how much money is coming in to (cash flows) and going out of (cash outflows) your business.

- Cash Inflows include cash sales, accounts receivable collections, loans and other investments
- Cash Outflows include equipment purchased, expenses paid, inventory and other payments.

To calculate your ending cash balance, take the beginning cash balance, add cash inflows and then subtract cash outflows. ($\text{Beginning cash balance} + \text{cash inflows} - \text{cash outflows} = \text{ending cash balance}$)